MACROECONOMICS IN EMERGING MARKETS pdf

1: Emerging Market Economy

*Macroeconomics in Emerging Markets [Peter J. Montiel] on www.enganchecubano.com *FREE* shipping on qualifying offers. The macroeconomic experience of emerging and developing economies has tended to be quite different from that of industrial countries.*

What Is an Emerging Market Economy? By Reem Heakal Updated August 17, â€" An emerging market economy EME is defined as an economy with low to middle per capita income. The term was coined in by Antoine W. Although the term "emerging market" is loosely defined, countries that fall into this category, varying from very big to very small, are usually considered emerging because of their developments and reforms. Both China and Tunisia belong to this category because both have embarked on economic development and reform programs, and have begun to open up their markets and "emerge" onto the global scene. EMEs are considered to be fast-growing economies. What an EME Looks Like EMEs are characterized as transitional, meaning they are in the process of moving from a closed economy to an open market economy while building accountability within the system. Examples include the former Soviet Union and Eastern bloc countries. As an emerging market, a country is embarking on an economic reform program that will lead it to stronger and more responsible economic performance levels, as well as transparency and efficiency in the capital market. An EME will also reform its exchange rate system because a stable local currency builds confidence in an economy, especially when foreigners are considering investing. Exchange rate reforms also reduce the desire for local investors to send their capital abroad capital flight. One key characteristic of the EME is an increase in both local and foreign investment portfolio and direct. A growth in investment in a country often indicates that the country has been able to build confidence in the local economy. For foreign investors or developed-economy businesses, an EME provides an outlet for expansion by serving, for example, as a new place for a new factory or for new sources of revenue. For the recipient country, employment levels rise, labor and managerial skills become more refined, and a sharing and transfer of technology occurs. Portfolio Investment and Risks Because their markets are in transition and hence not stable, emerging markets offer an opportunity to investors who are looking to add some risk to their portfolios. The possibility for some economies to fall back into a not-completely-resolved civil war or a revolution sparking a change in government could result in a return to nationalization , expropriation and the collapse of the capital market. For more insight on getting into emerging economies, read Forging Frontier Markets. However, the bigger the risk, the bigger the reward , so emerging market investments have become a standard practice among investors aiming to diversify while adding risk. For more details on the advantages and disadvantages of making foreign investments, see Is Offshore Investing For You? Global Economy An emerging market economy must have to weigh local political and social factors as it attempts to open up its economy to the world. The people of an emerging market, who are accustomed to being protected from the outside world, can often be distrustful of foreign investment. Emerging economies may also often have to deal with issues of national pride because citizens may be opposed to having foreigners owning parts of the local economy. Moreover, opening up an emerging economy means that it will also be exposed not only to new work ethics and standards but also to new cultures. The introduction and impact of, say, fast food and music videos to some local markets has been a by-product of foreign investment. Over the generations, this can change the very fabric of a society, and if a population is not entirely trusting of change, it may fight back hard to stop it. The Bottom Line Although emerging economies may be able to look forward to brighter opportunities and offer new areas of investment for foreign and developed economies , local officials in EMEs need to consider the effects of an open economy on citizens. Furthermore, investors need to determine the risks when considering investing in an EME. The process of emergence may be difficult, slow and often stagnant at times. And even though emerging markets have survived global and local challenges in the past, they had to overcome some large obstacles to do so. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

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The macroeconomic experience of emerging and developing economies has tended to be quite different from that of industrial countries. Compared to industrial countries, emerging and developing economies have tended to be much more unstable, with more severe boom/bust cycles, episodes of high inflation and a variety of financial crises.

Developing countries that are neither part of the least developed countries , nor of the newly industrialized countries In the s, "less developed countries" LDCs was the common term for markets that were less "developed" by objective or subjective measures than the developed countries such as the United States, Japan, and those in Western Europe. These markets were supposed to provide greater potential for profit but also more risk from various factors like patent infringement. This term was replaced by emerging market. The term is misleading[according to whom? Originally coined in by then World Bank economist Antoine Van Agtmael , [7] [8] the term is sometimes loosely used as a replacement for emerging economies, but really signifies a business phenomenon that is not fully described by or constrained Sherzodbek Safarov; such countries are considered to be in a transitional phase between developing and developed status. Examples of emerging markets include many countries in Africa , most countries in Eastern Europe , some countries of Latin America , some countries in the Middle East , Russia and some countries in Southeast Asia. Emphasizing the fluid nature of the category, political scientist Ian Bremmer defines an emerging market as "a country where politics matters at least as much as economics to the markets". Kvint published this definition: More critical scholars have also studied key emerging markets like Mexico and Turkey. According to his definition, an emerging economy displays the following characteristics: Institutional transformations and economic opening: Hence, emerging economies appears to be a by-product of the current globalization. Newly industrialized countries as of This is an intermediate category between fully developed and developing. The term "rapidly developing economies" is being used to denote emerging markets such as The United Arab Emirates , Chile and Malaysia that are undergoing rapid growth. TV video, hedge fund manager Jonathan Binder discusses the current and future relevance of the term "emerging markets" in the financial world. Binder says that in the future investors will not necessarily think of the traditional classifications of "G10" or G7 versus "emerging markets". Instead, people should look at the world as countries that are fiscally responsible and countries that are not. Whether that country is in Europe or in South America should make no difference, making the traditional "blocs" of categorization irrelevant. According to their analysis, depending on the criteria used, the term may not always be appropriate. Newly industrialized countries are emerging markets whose economies have not yet reached developed status but have, in a macroeconomic sense, outpaced their developing counterparts. Individual investors can invest in emerging markets by buying into emerging markets or global funds. If they want to pick single stocks or make their own bets they can do it either through ADRs American depositor Receipts - stocks of foreign companies that trade on US stock exchanges or through exchange traded funds exchange traded funds or ETFs hold basket of stocks. The exchange traded funds can be focused on a particular country e. Commonly listed[edit] Various sources list countries as "emerging economies" as indicated by the table below. While there are no commonly agreed upon parameters on which the countries can be classified as "Emerging Economies", several firms have developed detailed methodologies to identify the top performing emerging economies every year [19] Emerging Markets by Each Group of Analysts Country.

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3: Macroeconomics in emerging markets - PDF Free Download

"Macroeconomics for Emerging Markets fulfills a very important role in bridging the wide gulf between the `standard macroeconomics textbook' and the issues, problems, and policy challenges that emerging market economies encounter on a day-to-day basis.

In both contexts the audiences have often been very bright, very knowledgeable about the problems of their countries, and not very interested in sophisticated mathematics. These experiences convinced me that there is a need for a book on macroeconomic policy in emerging economies that treats the most important issues facing these countries in a way that is conceptually sound but that does not place excessive technical demands on the reader, thus making it accessible to students and policymakers who are less mathematically inclined than the typical graduate student in economics. This book is my attempt to meet that need. It is intended to be accessible to upper-level undergraduates i. Why a book on macroeconomics in emerging economies instead of a more general macroeconomics text that could be applied to emerging economies? This is an important question, and I think that there are essentially two answers to it. All macroeconomic models are based on stylized descriptions of the environment in which economic agents interact, and this environment often differs in important ways in emerging economies from that in industrial countries. The second reason is probably more important. For example, the governments in these models are usually assumed to be solvent, and are thus expected to service their debts on schedule. Among industrial countries, short-run macroeconomics is typically concerned with business cycle phenomena, a name that connotes a fairly regular and mild rhythm of economic activity. This book, then, has dual aims. Preface ix While the central importance of the budget in developing-country macroeconomic performance has come to be widely acknowledged over the past decade or so, it has not yet received pride of place in textbooks. I believe that this structure will continue to make the book relevant to students of developing-country macroeconomics for the foreseeable future. This text is divided into four parts. The analytical framework is presented in Part 2. The four chapters in Part 2 develop a model, essentially at the intermediate macroeconomics level of rigor i. The model differs from the standard versions found in intermediate-level industrialcountry textbooks in several ways. Finally, the model incorporates current account dynamics. To do so, it is developed in two stages: Part 5 opens with a chapter on the meaning and measurement of equilibrium real exchange rates, before turning to issues of nominal exchange rate management. Many observers have recently claimed that with an open capital account, countries will be forced to adopt extreme exchange rate regimes. These issues are illustrated in Chapter 19, with an analysis of the Mexican and Asian crises. The answer to this question is that short-run macroeconomic stability has increasingly been recognized as an important determinant of long-term growth performance in such economies. A wide array of evidence is consistent with this proposition, derived from cross-country experience as well as from case studies of both successful and unsuccessful developing economies. The growing attention paid to macroeconomic issues by development-oriented institutions such as the World Bank is one consequence of this new perception. The key macroeconomic relative prices are those that guide the allocation of production and consumption between present and future goods, as well as between domestic and foreign ones. Those relative prices are the real interest rate and real exchange rate, respectively. This book is concerned with the effects that the quality of domestic policies in each of these areas can have on domestic macroeconomic stability and the behavior of key macroeconomic relative prices. That is the question we will address in this chapter. We will begin by reviewing the basic factors that underlie long-term economic growth, as summarized in aggregate production functions, before turning to a theoretical consideration of how such factors may be affected by short-run macroeconomic performance. For simplicity, it is convenient to assume that only one type of good is produced in the domestic economy economists refer to this as complete specialization in production. The maximum amount of the good that can be produced with a given quantity of 1 We can think of this single good as a composite, possibly consisting of many individual goods. Our assumption of complete specialization just means that we will not be analyzing changes in relative prices among goods produced domestically. The Marginal Product of Labor labor and capital services is determined by the aggregate production function, which we will write in the form: Because changes in A correspond to changes in the productivity of both factors of production, A is usually referred to as an indicator of total factor productivity. In order to use this production function, we will need to say something about its properties. We will assume that this function has three properties that are typical of neoclassical production functions. First, the function will be assumed to be continuously differentiable. This just means that each of the factors of production can be varied continuously, and that such variations will produce continuous changes in the level of output. The change in the level of output corresponding to a small increase in one of the factors, holding the other constant, is the marginal product of that factor. A second property is that these marginal products are positive and decreasing the familiar property of diminishing marginal returns for both labor and capital. This means that we can draw the marginal products of labor and capital as negatively sloped curves in the positive quadrant. For example, the marginal product of labor can be depicted as in Figure 1. A similar picture could be drawn for the marginal product of capital. This property turns out to be important in short-run macroeconomic models such as one we will be building in the next chapter. Finally, the function will be assumed to exhibit constant returns to scale CRTS , 2 An appendix to this chapter contains a very brief review of mathematical functions. The basic intuition is that stocks of capital and knowledge tend to change very slowly compared to the pace at which several other important macroeconomic phenomena play themselves out. When total employment L is at its full-employment level, say L P , the resulting level of output is variously referred to as the potential, capacity, or full-employment level of GDP. Thus, potential GDP is given by: It is useful to clarify the distinction algebraically. Suppose the ratio of the capital stock to annual output the capital-output ratio is 3, and that 7 percent of the capital stock wears out each year. Under these circumstances, gross domestic investment of 21 percent of GDP would be required to keep the capital stock from changing. But this is only a 3 percent change in the capital stock. Thus, achieving large changes in the capital stock relative to the size of the economy would tend to be a slow process. Macroeconomics and Development 7 of time as the sum of contributions made by each of the three arguments in the production function, where the contribution of each is the change in that argument multiplied by its marginal product: Dividing through by Y: Recall that under competitive conditions, the services of factors of production are remunerated at a rate equal to their marginal products. Under constant returns to scale, these shares must sum to unity. Growth of actual real GDP and growth of productive capacity given by the last term on the right are not the same thing. They differ whenever the rate of growth of employment differs from that of the labor force. Macroeconomists typically assume that the growth of the size of the labor force is affected primarily by longer-term demographic factors, rather than by short-run macroeconomic events. If this is true, we are left with two channels through which short-run macroeconomic events can affect the rate of growth in long-run productive capacity: The key reason is that in a market economy, resource allocation is guided by intratemporal and intertemporal relative prices. Intratemporal relative prices such as the real exchange rate provide the incentives that guide the allocation of resources between broad sectors of the economy, such as those that produce traded and nontraded goods. On the other hand, intertemporal relative prices the real interest rate convey information to the economy about the relative value to society of goods that are available at different points in time. They thus provide the incentives to shift resources between the production of present or future goods â€” that is, to defer consumption and accumulate capital. It is also important that economic agents be able to respond to these relative prices. Macroeconomic instability tends to generate uncertainty, and in particular, uncertainty about whether the relative prices observed in the present will prove to be permanent or transitory. Instead, they must be inferred. This situation has important implications both for growth of total factor productivity as well as for the accumulation of productive factors. Effects on the growth of total factor productivity arise from two sources: This has a direct effect on total factor productivity, because the resources absorbed in generating and processing information are not available to be used in the production of goods and services. Moreover, even under the best of circumstances, the expenditure of resources in solving this inference problem will be unable to resolve all uncertainty about future relative prices. The reasons are similar. When capital is irreversible, a potential investor in effect owns a valuable option before he or she makes the commitment to invest, the option being not to undertake the investment. The value of this option is higher when there is uncertainty, because the potential gains from not investing in the form of losses avoided are larger the greater the degree of uncertainty in the economic 10 Overview environment. When capital is irreversible, making the decision to invest means surrendering this option, which thus represents an important opportunity cost of investment. By increasing the degree of uncertainty in the environment, short-run macroeconomic instability thus increases the value of the option to wait rather than invest, and thereby discourages the accumulation of physical capital. Symptoms of Macroeconomic Instability But what precisely do we mean by macroeconomic instability? At a heuristic level the answer is obvious: But how might this situation arise? We will discuss this in detail in Chapter 7. The consequences of this type of macroeconomic instability for longterm growth are explored in Chapter 6. Extreme swings in economic activity are likely to be associated with greater uncertainty for both intra- and intertemporal relative prices. Financial fragility is the subject of Chapter Exchange Rate Misalignment Finally, large and persistent real exchange rate misalignment also increases the uncertainty associated with intratemporal as well as intertemporal relative prices. When the real exchange rate is known to be far from its equilibrium value, that equilibrium value becomes unobservable and therefore uncertain. We will return to this subject in Chapter As mentioned before, these are not the only conceivable symptoms of macroeconomic instability, but they seem to have been the most important ones in emerging economies during the past two decades. But is there any evidence that such phenomena have indeed been associated with slower growth of productive capacity? They basically claim that there is a cause-and-effect relationship between macroeconomic uncertainty and growth. This suggests an association between these two variables in the data. Thus, year-to-year correlations may be meaningless as evidence. It must be estimated. This cannot generally be done for a single country, unless we have enough data to generate periods that are long enough for meaningful averages to be calculated. Thus, a natural approach is to look at cross-country experience â€” to use cross-section evidence. To illustrate some of the methodological issues involved, consider as an example a well-known recent study by Fischer on the relationship between macroeconomic performance and long-run growth. Fischer describes various ways to examine empirically the links between macroeconomic stability and growth. One way to do it is to look at correlations across regions and for the same region over time between average rates of economic growth and various macro variables that serve as indicators of stability Table 1 in Fischer

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This paper reviews the empirical evidence on the monetary policy of the Bank of Japan (BOJ). The main findings confirm [McKinnon, R., Ohno, K., Dollar and Yen, Resolving Economic Conflict between.

5: Emerging market - Wikipedia

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7: What Is An Emerging Market Economy?

This accessible textbook in macroeconomics is designed specifically for emerging economies. It provides a textbook model that upper-level undergraduate students use to understand economic events in their countries, and separate analysis of the key macroeconomic problem areas that these economies.

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In emerging markets, government has a much more active role in production with state-owned enterprises playing a relatively large role in the economy. 2. Many emerging-market and developing countries face severe challenges in tax administration (tax evasion).

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